THE
DEBT
MARKETPLACE℠

June 6, 2007

Federal Trade Commission/Office of the Secretary
Room H-135 (Annex N)
600 Pennsylvania Avenue, N.W.
Washington, DC 20580

Re: Debt Collection Workshop, P074805

Dear Sirs:

I would first like to thank the Commission for the opportunity to present my views and observations of the debt collection industry relative to the dynamic changes it has experienced. I have been involved in the debt collection industry, primarily with debt buying, for almost 17 years. The industry existed for many years prior to my involvement. However, the surge in large volume debt sales did not begin in earnest until 1996. There has been a steady increase in debt sales since that time.

Debt buyers purchase defaults with the intent to collect the outstanding balance. Many purchase debt and collect on their own behalf while others place accounts with third-party collection services. Still others purchase defaults with the intent to repackage the accounts for resale to geographically specific buyers.

My experience as an industry consultant and my involvement in helping to develop industry standards for self-regulation have led me to conclude that the industry as a whole is extremely concerned with protecting consumer rights and privacy through adherence to state and federal requirements. This industry recognizes that, while its activities have an important contribution to the US economy, it must be diligent in maintaining policies and procedures that safeguard consumers and prevent abuses. With my unique experience in this industry, I would be happy to offer my assistance to the FTC in its quest for information related to the October 2007 Workshop.

The debt collection industry is directly affected by economic factors and consumer characteristics. As discussed in the following sections, consumer borrowing has increased over the past ten years while the charge off rate of revolving credit has averaged almost 5.5%. These factors, as well as regulatory changes and legislation, affect the debt volumes and quality of accounts worked by third party collection services. In addition, many factors impact the collection of a debt including a consumer's health, age, employment status, and marital status, and local, regional, state and national economic conditions.

THE DEBT MARKETPLACE, INC.
10440 Pioneer Boulevard, Suite 2
Santa Fe Springs, CA 90670-3742
(562) 903-7220 ♦ FAX: (562) 903-7277
Web Site: www.debtmarketplace.com

The industry is well aware that the incidence of consumer complaints is an important indicator for determining its compliance with state and federal requirements. In order to quantify the collection industry's performance relative to consumer complaints, this paper will address several areas related to the collection of debt, and will also provide a comparison between the number of third party collection complaints received by the Commission against a realistic estimate of telephone attempts to contact consumers who have defaulted on their financial obligations. Due to the lack of published documentation relating to actual phone calls made to consumers, a conservative estimate of this number was derived from reasonable industry work standards.

References used for this analysis include annual economic reports published by the Federal Reserve and the Federal Trade Commission, available on their public web sites, as well as reports published by the National Bankruptcy Research Center. This analysis does not consider the incidence of written communications and it is based on data published for the six year period from 2000 through 2005. In addition, due to limited resources on bankruptcy data for non-revolving and mortgage credit, the analysis is restricted to revolving credit.

Relevant Collection Data

According to the Federal Reserve, overall non-mortgage credit extended to consumers rose from $1.722 trillion in January 2000 to $2.295 trillion in December 2005. This represents a growth rate of 33.28 percent over this six year time period.

Revolving credit represented 39.75 percent or $683 billion of the 2000 total and 35.99 percent or $826 billion of the 2005 total. Revolving credit grew at a rate of 12 percent in 2000, but growth slowed to approximately 3 percent from 2004 to 2005.

Revolving Credit as of December	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Outstanding (billions)	$ 682.97	$ 716.41	$ 749.00	$ 771.10	$ 801.26	$ 826.60
Percent Change Yr/Yr	12.08%	4.90%	4.55%	2.95%	3.91%	3.16%

A portion of consumer credit becomes delinquent when a consumer does not make payments as agreed. Generally, a debt will be charged off if a payment has not been received within 180 days of the date of delinquency. This charge-off time period is regulated by federal banking rules. Once the debt has been charged-off, the originator of the credit will typically place the account for collection with a third-party collection service or will sell the account to a debt buyer.

The percentage of accounts that are charged-off varies from year to year due to economic conditions, legislation and regulatory rule changes. Revolving credit has an average charge-off rate of 5.45 percent over the 2000 to 2005 timeline.

The dollar amounts of the charged-off credit balances are recorded quarterly by the Federal Reserve as a percentage of the total outstanding consumer credit. Revolving credit is typically credit card accounts. Non-revolving credit includes a large number of consumer closed-end credit accounts for which the consumer agrees to a fixed repayment date. Examples of non-revolving credit include autos, mobile homes, and personal loans. Mortgages are not included in these records, but are tracked separately.

Revolving Credit as of December	2000	2001	2002	2003	2004	2005
Percent Charge-Off	4.70%	6.33%	5.41%	5.86%	4.56%	5.90%
Amount Charge-Off (Billions)	$ 32.10	$45.35	$ 40.52	$ 45.19	$ 36.54	$ 48.77
Percent Change Yr/Yr	14.02%	41.28%	-10.65%	11.51%	-19.14%	33.48%

Charge-off also occurs when the account is discharged in bankruptcy or when it is included as part of a bankruptcy payment plan. Any payment received from a payment plan is treated as income to the originator/owner. Some payment plans are placed with third party service providers who specialize in managing bankruptcy receivables, while others are sold. On average, 2.37 percent of outstanding revolving credit was charged-off due to bankruptcy over this time period. The average dollar loss was $4,448 per line of credit. An average of 4.1 million lines of credit was affected annually.

Revolving Credit as of December	2000	2001	2002	2003	2004	2005
Percent Bankruptcies	2.12%	2.50%	2.30%	2.37%	2.28%	2.64%
Amount Bankruptcies (billions)	$ 14.48	$ 17.91	$ 17.23	$ 18.28	$ 18.27	$ 21.82
Percent Change Yr/Yr	-3.41%	23.70%	-3.81%	6.08%	-0.03%	19.45%
Average BK Loss**	$ 4,976	$ 3,784	$ 3,946	$ 4,219	$ 4,153	$ 5,608
Percent BK Loss Yr/Yr	7.71%	-23.95%	4.28%	6.92%	-1.56%	35.03%
Number of Accounts	2,909,760	4,733,153	4,365,687	4,331,612	4,398,923	3,891,270
Percent Change Yr/Yr	-10.32%	62.66%	-7.76%	-0.78%	1.55%	-11.54%

Accounts that have been charged-off and are not coded as bankrupt, fraud or deceased are generally placed for collection or sold by the originator. The average charge off rate for revolving credit was 3.09 percent of the amount outstanding, and the average dollar loss per line of credit was $2,592. The number of revolving accounts that went to collections averaged 9.4 million per year over this period.

Revolving Credit as of December	2000	2001	2002	2003	2004	2005
Percent Non-BK Charge-Off	2.58%	3.83%	3.11%	3.49%	2.28%	3.26%
Amount Non-BK Charge-Off (billions)	$ 17.62	$ 27.44	$ 23.29	$ 26.91	$ 18.27	$ 26.95
Percent Change Yr/Yr	33.87%	55.72%	-15.11%	15.53%	-32.12%	47.50%
Average Card Loss	$ 3,170	$ 2,091	$ 2,215	$ 2,487	$ 2,768	$ 2,823
Percent Change Yr/Yr	17.76%	-34.04%	5.93%	12.28%	11.30%	1.99%
Number of Accounts	5,558,557	13,122,192	10,516,433	10,820,824	6,599,974	9,545,576
Percent Change Yr/Yr	13.68%	136.07%	-19.86%	2.89%	-39.01%	44.63%

Accounts normally remain in collections for at least four years. Accounts that remain uncollected carry over into the next year, and continue to do so until the debt is settled or becomes legally uncollectible. Typical collection efforts will produce a 27 percent recovery rate over a three year time frame. One can expect to collect about 13 percent in the first 12 months from charge-off, another 9 percent will be recovered in the second year, and as much as 5 percent in the third year. Based on these average statistics, we can calculate the estimated number of accounts that would be carried over from the previous three years. By adding this estimate to the total number of charge-off accounts in the current year we have a reasonable representation of the number of revolving accounts in collection in any given year.

Revolving Credit as of December	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
First Year Account Carryover	4,253,889	4,835,945	11,416,307	9,149,297	9,414,117	5,741,977
Second Year Account Carryover	3,081,220	3,862,727	4,391,260	10,366,532	8,307,982	8,548,451
Third Year Account Carryover	3,514,460	2,847,204	3,569,355	4,057,747	9,579,200	7,676,996
Total Accounts in Collection	16,408,126	24,668,067	29,893,355	34,394,400	33,901,274	31,513,001
Percent Change Yr/Yr	8.89%	50.34%	21.18%	15.06%	-1.43%	-7.04%

Revolving credit is only one of many types of obligations that debt buyers' purchase for the purpose of collecting the defaulted balance. Non-revolving credit obligations purchased include utilities, telephone (e.g., hard wire and wireless), medical bills, health club, auto deficiencies, over drafts, rent and other types. When a consumer defaults on a revolving line of credit, there are normally several non-revolving accounts on which the consumer defaults as well. To conservatively estimate the number of accounts in collections for a given year, these other types must also be considered. This analysis conservatively estimates that an additional 4 types of non-revolving credit will be in collections with the revolving account. To estimate the number of additional non-revolving accounts, the total number of revolving accounts are multiplied by 4, and then added to the revolving account total.

In order to accurately represent the volume of work conducted by the industry as it relates to consumer complaints, a conservative estimate of telephone calls made on delinquent accounts was derived using reasonable industry work standards, as well as an estimate that reflects the addition of non-revolving accounts. The following table provides an overview, by year, of the estimated calls made on accounts in collection.

Total Telephone Calls Per Year

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
26 calls per account	426,611,280	641,369,735	777,227,241	894,254,388	881,433,111	819,338,015
52 calls per account	853,222,559	1,282,739,470	1,554,454,482	1,788,508,776	1,762,866,222	1,638,676,030

Add 4 Non-Revolving Accounts

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
26 calls per account	1,706,445,118	2,565,478,939	3,108,908,964	3,577,017,552	3,525,732,445	3,277,352,060
52 calls per account	3,412,890,237	5,130,957,878	6,217,817,929	7,154,035,103	7,051,464,889	6,554,704,119

Since the work conducted by the collection industry demands discretion, it is in the best interest of debt buyers and their third-party collection service providers to make legal and regulatory compliance their top priority. Consumer complaints filed with the FTC provide one source of information related to success in this area. According to the FTC, 66,627 complaints were filed with the Commission in 2005. Based on the estimate of 31,513,001 total accounts in collection as of 2005 shown earlier and the 2005 FTC complaint data, complaints account for only .2% of total accounts in collection. In addition, based on the estimated number of phone calls made on revolving and non-revolving accounts at 26 calls per account (e.g., 3,277,352,060 calls), this percentage falls to .002.

	2000	**2001**	**2002**	**2003**	**2004**	**2005**
Number FTC Complaints	13,962	15,819	25,185	34,565	58,687	66,627

Although the number of complaints received by the Commission has been on the rise, this rise may be explained, in part, by the increase in the number of accounts in collection. The number of accounts in collection in 2001 through 2003 increased annually. Even though there was a slight decrease in the total number of accounts in 2004, the decrease in collection accounts could very well be attributed to low interest rates. The low interest rate may have allowed those consumers on the brink of default to refinance or sell property to satisfy current debts. Consumers already in default would not typically have a home to refinance or sell. The complaints may have been a carryover from the previous period.

Consumer complaints continued to increase in 2005 albeit at a slower pace. If the number of accounts in collection were the only factor affecting consumers in default, the 7 percent drop in collection accounts should have translated into a decrease in complaints. Since the complaint volume did not decrease, the data suggests that there are other possible causes affecting consumers. In 2005, banks were required to increase the minimum monthly payment a consumer could make on a revolving credit account. This change forced many sub-prime borrows into default. The changes were introduced to the consumers at different times throughout the year by the individual lending institutions. Due to the fact that there is a six month lag from the default date to the charge-off date, the affect of the charge-off may not have been seen until the fourth quarter of 2005. The charge-off would carry over into 2006 and be reflected in an increased charge-off rate for that year.

Low interest rates continued into the early part of 2005 but began to climb by mid-year. These lower rates helped to keep the charge-off rates in check. When the interest rates increased and sub-prime borrowers were required to pay a higher minimum payment, default rates climbed.

In addition to the increased payments required on revolving accounts, 2005 saw the enactment of Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. These two factors dramatically impacted consumers who were already in financial trouble, and affected their ability to repay their obligations.

Conclusion

It is likely that a combination of factors have driven up the number of collection complaints to the FTC. A combination of: higher numbers of accounts in collection, regulatory adjustments to the minimum balance required on revolving debt, and the new bankruptcy law may all be key components to this increase in complaints.

While zero tolerance is the ideal benchmark for consumer complaints as they relate to unfair or unlawful business practices, the marginal percentage of consumer complaints filed with the FTC as compared to the total number of accounts in the collection process support the compliance awareness of our industry. Realistically, we are still asking consumers to do something they may not want to do, or feel they are unable to do, which is pay on contractually obligated debt they owe.

The data suggests that industry efforts to comply with regulatory and compliance directives, combined with industry led self-regulatory initiatives, have resulted in an infinitesimal rate of complaints compared to the work being done. In addition, the data further suggests that some of the complaints filed may be the result of factors other than poor or unlawful business practices.

As with any responsible enterprise, continued improvements in training and compliance, as well as vigilant oversight, should be the standard for the industry if it wants to be effective, competitive and profitable. The data and my experience have led me to conclude that improvement and oversight initiatives are being embraced within the industry. I believe that the industry as a whole understands its obligation to protect the interests of American consumers while still operating efficiently and effectively to collect debt that is legitimately owed.

Sincerely,

Dennis F. Hammond
President
The Debt Marketplace, Inc.